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November 2, 2000

Mr. Jerry Nabhan
Mr. Bill Dobert
Specialty Solid Waste & Recycling, Inc.
3355 Thomas Road
Santa Clara, CA 95054

Dear Jerry and Bill:

Bill and I enjoyed meeting with you to explore ways in which the company could provide savings to the City in exchange for the City granting additional years under your existing franchise agreement. While brainstorming the above, the following long range company objectives and related concerns were identified:

- A desire to work with the City to implement cutting edge service within the industry. This includes the possible introduction of natural gas vehicles.
- A desire to work with the city in the construction of a fueling station.
- A desire to continue to look for and work with the city on developing cost saving measures that qualify under the incentive program.
- Concerns that the cost recovery period for required capital expenditures will extend beyond the current franchise term.

The company currently anticipates expending over 32 million dollars for new rolling stock and equipment through the current franchise period ending June 30, 2011. Of the above amount, over 17 million dollars is expected to be expended during the last five years of the franchise agreement. With such large monetary expenditures pending over the ensuing years, expiration of the franchise agreement could create a severe financial hardship as a result of significant unamortized indebtedness.

We believe we have developed an approach which provides the City with annual savings and remedies the business uncertainties associated with a finite franchise term. The approach would convert your existing franchise agreement to an "Annually Renewable Franchise Agreement" (ARFA).

The above agreement would operate as follows:

- As of July 1, 2001, the company currently has ten years remaining on its existing franchise agreement. Effective July 1, 2001, the existing agreement would convert to the ARFA.

- The ARFA would maintain a constant ten-year term. At the end of each year, the ARFA would automatically renew for one additional year. At the City's option, it may cancel the automatic renewal provision of the agreement upon giving the company written notice no later than ninety days before the end of the fiscal year. Upon cancellation of the renewal provision, the ARFA would then convert to a set term of ten years.

- For each renewal period granted by the City, the company would provide the City with annual savings equivalent to the amount calculated during the last franchise extension negotiation, approximately $285,000.

- The above savings would be realized by implementing a "cap" on the allowable annual interest expense deduction for contractor payment computation purposes.

- The above approach would establish a maximum interest rate which would be allowed in calculating the annual contractor payment. Based upon your anticipated financing requirements for equipment purchase commitments, the "cap" rate would be approximately prime minus one-quarter percent in order to generate the above annual savings to the City. In the event the City exercises its option to cancel the automatic renewal provision, the cap rate would return to the rate in place before entering into the ARFA.

- In order to encourage additional cost savings, financing rates obtained by the company below the respective years applicable "cap" rate would qualify under the incentive program. For example, while the automatic renewal is in effect, incentive compensation would be one-half of the difference between prime less one-quarter and the actual interest rate. However, if the ARFA is terminated, incentive compensation would be one-half of prime plus one and three-quarters, minus the actual interest rate.

Other municipalities are considering approaches similar to the ARFA approach outlined above for a variety of reasons. With the introduction of AB939, we have seen cities attempt to reward haulers with increased profit incentives for obtaining diversion goals. Cities and haulers have since determined that increased franchise terms, as contrasted with profit incentives, provide for similar operating results in a more rate payer friendly manner. However, the most common reason cities are considering the ARFA approach is to build upon an already existing positive working relationship with the hauler. Cities and haulers that share operating goals and philosophies, look for opportunities to improve service while controlling costs, and those that have built mutual trust and respect for each other are beginning to embrace the ARFA concept.

Benefits to the City of adopting the ARFA approach includes the following:

- The ARFA concept was developed in response to the City's desire to maintain and enhance on going working relationships with their haulers without committing to lengthy franchise extensions. The ARFA accomplishes this desire while at the same time creating a favorable long term financing (lender) environment.

- Elimination of time constraints created by a finite franchise term which hinders developing long range operating objectives with the hauler.

- Promotes a more conducive environment for exploring ways of improving service and implementing cost savings.

- The City may, at its option, cancel the renewable provision of the agreement. This provides the City with the ability to return to a finite franchise term if it believes it to be in its best interest. Additionally, the City's ability to exercise the option annually will provide the company with increased incentive to provide exceptional service.

- The City, at a minimum, will enjoy annual cost savings consistent with the amounts realized during the prior franchise extension. Additionally, the City has the opportunity to realize even greater cost savings through the incentive program and through the implementation of the stair-step "cap" rate. The above savings would be realized for each additional year of service granted.

Benefits to the company include the following:

- Elimination of financing obstacles associated with a finite franchise agreement.

- Provides the company with additional one-year increments to its existing agreement which provides increased flexibility in planning and implementing cost saving operational changes.

Bill and I view moving to the ARFA as a win-win scenario for the City and the company. We believe it will enhance an already mutually beneficial relationship and provide the City an opportunity to retain the company and its excellent service record for an indefinite period of time while realizing annual cost savings. We would be happy to meet with you and the City to explore this concept in more depth. If you have any questions or require clarification, please don't hesitate contacting me.

Sincerely yours,

Roger L. Williams

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